PROGRAM TO SUPPORT SOCIAL SECTOR INSTITUTIONAL REFORM

(DR-0140)

EXECUTIVE SUMMARY

Borrower:	Dominican Republic	
Executing agency:	Technical Secretariat of the Presidency	
Amount and source:	IDB: Total:	US$200 million (OC) US$200 million
Financial terms and conditions:	Amortization period: Grace period: Disbursement period: Interest rate: Inspection and supervision: Credit fee: Currency:	20 years 5 years 18 months variable 1% 0.75% United States dollars under the Single Currency Facility

Objectives: The ultimate objective of the program is to help reduce poverty and support economic growth in the Dominican Republic. The program aims to enhance the efficiency and efficacy of public spending in priority social sectors, particularly health and education. To this end, the program will introduce policy reforms to: (i) strengthen the institutional framework of the social sectors; (ii) protect social expenditure and increase its efficacy in the current economic circumstances; and (iii) strengthen institutional capacity for formulating and monitoring social policy.

Description: The program has been designed as a sectoral operation with three disbursement tranches: the first for up to US$80 million; the second for up to US$20 million; and the third for up to US$100 million. The program is an initial step in a series of longer-term reforms seen as essential for the functioning of the Dominican State.

The amount of the loan is justified by the magnitude of the country's balance of payments needs (paragraphs 1.5 to 1.7), and is proportionate to the level and scope of institutional changes to be carried out.

The institutional changes envisaged in the program are of three types: (i) structural changes will be implemented to reduce discretionary action and improve public spending management. Given its transversal nature, this is expected to affect all public institutions and help reduce poverty, while also contributing to macroeconomic stability; (ii) to complement the above, the program envisages major changes, albeit on a smaller scale, within the priority education and health sectors, execution of which will lead to greater efficiency and better quality in the provision of these social services; and (iii) in addition, the program will build basic institutional capacities for sectoral coordination, which will also make it possible to take qualitatively significant steps toward consolidating a State poverty reduction policy.

Disbursements of program funding will be subject to satisfactory completion of the institutional changes to be implemented in the following three reform areas: (i) strengthening of the institutional framework in the social sectors; (ii) protection and greater effectiveness of social expenditure during the current economic circumstances; and (iii) strengthening of institutional capacity to formulate and monitor social policy.

The conditions for the first tranche of financing will primarily involve drawing up the regulations and procedures needed to put the institutional changes into practice in the public sector. Initial implementation of these changes corresponds to disbursement of the second tranche, and obtaining results to the third.

The Bank's country and sector strategy: The proposed operation is consistent with the Bank's strategy of developing the institutional capacities the country needs to tackle its present social vulnerability, while preserving growth and stability and also rising to the challenge posed by the accumulated social debt. The proposed operation draws on lessons learned from the Bank's previous sectoral operations, as well as those of other multilateral agencies, particularly the introduction of executable conditions during the current administration and the analysis of institutional and policy viability to identify targets with major impact and high probability of execution.

Environmental and social review: The Committee on Environment and Social Impact has approved the operation without comment. The program centers around policy actions that do not require civil works or any other actions with the potential for direct environmental impact.

Benefits: This program will support the Government of the Dominican Republic in the initial stages of implementing a State and public-institution structural reform program, in order to overcome the current paradox of sustained economic growth and persistent poverty. The program will help develop basic institutions, common to the functioning of the Dominican State, which will reduce macroeconomic and fiscal fragility, and at the same time allow public spending to be more effectively programmed and targeted on the poorest sectors.

Risks: Recent economic and legislative measures demonstrate the government's political will to make in-depth reforms. The maintenance of this level of political commitment during program execution is a requirement for its success.

The risks of the program stem from: (i) shortcomings in technical capacities to implement institutional reforms; (ii) the multisectoral nature of the institutional changes envisaged; and (iii) internal resistance to the redefinition of functions and responsibilities contained in the institutional changes promoted by the program.

To minimize these risks, the program includes the following design elements: (i) an execution monitoring system to help the executing agency monitor the operation; (ii) responsibility for program monitoring rests with the Social Portfolios Council; this is the logical forum for dialogue and political consensus among those involved in the institutional change process; and (iii) a technical unit is to be set up to support the executing agency and the Social Portfolios Council.

Special contractual clauses: Disbursement of the three financing tranches will be subject to the conditions set out in Annex I to this document, "Policy conditions matrix".

Poverty-targeting and social sector classification: This operation does not qualify as a poverty-targeted investment, but it does qualify as a social equity enhancing project, as described in the core objectives for the Bank's activity in the report on the Eighth General Increase in Resources (document AB-1704) (see paragraph 4.5).

Exceptions to Bank policy: None.

Procurement: Not applicable, for reasons indicated in paragraphs 3.10 and 3.11.